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Viewing cable 06BUENOSAIRES1594, ARGENTINA: KIRCHNER AT THREE YEARS

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Reference ID	Created	Released	Classification	Origin
06BUENOSAIRES1594	2006-07-18 21:16	2011-08-30 01:44	SECRET	Embassy Buenos Aires

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SIPDIS

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SUBJECT: ARGENTINA: KIRCHNER AT THREE YEARS

REF: A. 05 BUENOS AIRES 02728

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- [1E.](#) BUENOS AIRES 00097
- [1F.](#) BUENOS AIRES 01566

Classified By: Ambassador Lino Gutierrez for Reasons 1.4 (B) and (D).

SUMMARY

[11.](#) (C) Coming to power after one of the worst economic, political and social crises in Argentina's history, President Nestor Kirchner has had a successful first three years in office. He is seen as a strong and decisive leader and is credited with restoring governability to the executive branch and promoting Argentina's impressive economic recovery. Kirchner has high public approval ratings and has restored public optimism in Argentina. Despite these major successes, Kirchner continues to face considerable challenges in dealing with poverty, crime, inflation, and the need to attract more foreign investment and resolve Argentina's long-term energy shortage. Although Kirchner started his presidency by strengthening the independence of the Supreme Court, Kirchner has since then failed to strengthen Argentina's institutional democracy, and in many cases has weakened it. Kirchner's reliance on presidential decrees, manipulation of the electoral system, tightened control over the Judiciary, and pursuit of permanent "super" budgetary powers have enhanced presidential power at the expense of Argentina's already weak institutional framework. Kirchner campaigned in 2003 on a strong anti-corruption message and his first Justice Minister, Gustavo Beliz, championed the cause of rooting out official corruption, but the GOA has placed less emphasis on fighting corruption since Beliz was fired in 2004. On the foreign policy front, President Kirchner's lack of attention and understanding in the international relations arena has resulted in an erratic GOA foreign policy. The Kirchner administration's most important foreign policy theme is the promotion of regional integration, which in practice has meant the strengthening of relations with Venezuela and Brazil. End Summary.

KIRCHNER'S MANY SUCCESSES

[12.](#) (C) Coming to power after one of the worst economic, political and social crises in Argentina's history, President Nestor Kirchner has had a successful first three years in office. When Kirchner first took office in May 2003, many analysts doubted he would finish his term. Since that time, Kirchner has gained full control of the Peronist Party (PJ), asserted his authority over the military, largely co-opted the piquetero movement that threatened the stability of past governments, won control of Congress in the October 2005 elections and maintained high public approval ratings. Not only is Kirchner's survival no longer in doubt, polls show that Kirchner would easily win reelection if elections were held today. Kirchner controls Argentina's political system and faces a weak and divided opposition. Kirchner has also proven adept at the traditional Peronist art of co-opting key elements of the opposition, including a majority of the opposition governors.

[13.](#) (C) He is seen as a strong and decisive leader and is credited with restoring governability to the executive branch and promoting Argentina's impressive economic recovery. Polls show that the Argentine public views Kirchner as a

decisive leader who was able to take charge and turn the country around during a difficult time in Argentine history. The wave of public demonstrations that stemmed from the 2001-2002 economic crisis that brought presidential authority in Argentina to one of its lowest ebbs has subsided and Kirchner has adeptly managed relations with protest leaders. On the economic front, Argentina has strongly rebounded from the crisis, with GDP growth rates of 9 percent for the past

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three years. Through the GOA's private sector debt deal and by paying off Argentina's IMF debt, Argentina's external debt has been brought to a manageable level for the first time in a decade. Under Kirchner's watch, Argentina has amassed record budget surpluses. The tax collection system -- a perennial problem for Argentine governments -- has been significantly improved, albeit aided by the use of distortionary taxes like the financial transaction tax and the export tax. Argentina's move to a market-based exchange rate regime in 2002 has triggered an export-led boom during Kirchner's presidency that has been the driving factor behind robust growth, accompanied by significant declines in unemployment and poverty levels.

¶4. (C) Kirchner has high public approval ratings and has restored public optimism in Argentina. Kirchner's approval ratings stand at 65-75 percentage points -- depending on the poll and how the question is asked -- a historical high for an Argentine president three years into his term. Polls by leading Argentine pollsters show that Kirchner receives high marks for his handling of the economy and for promoting political stability. Argentines also have developed a renewed sense of optimism under Kirchner's administration. In recent polling by a leading opinion research firm, a plurality of respondents -- 44 percent -- thought that conditions in Argentina would improve over the coming year, while only 12 percent thought things would get worse. In March 2003, the month Kirchner was elected, polling by the same firm showed that only 29 percent of the population thought things would get better in the coming year, while 30 percent thought things would get worse.

CHALLENGES REMAIN

¶5. (C) Despite these major successes, Kirchner continues to face considerable challenges in dealing with persistent poverty and high crime. Poverty rates have been nearly halved from almost 60 percent of the population at the height of the economic crisis to 34 percent today. At the same time, however, reducing poverty in this traditionally affluent country continues to be a major social policy imperative for the Kirchner administration. The continued problem of inflation -- which stood at 12.3 percent in 2005 and is on track to maintain a double digit rate in 2006 -- is also of a top GOA concern. The GOA has resorted to price controls, bullying producers to lower prices, and even banned the export of beef as a means to control inflation. (See Septel on evaluating Kirchner's economic policy.) Crime continues to be a major public focus according to opinion surveys. Argentines accustomed to minimal crime rates, particularly in the Greater Buenos Aires area, have since the economic crisis faced a major problem with street crime, home invasions, kidnappings and other types of violent crime. The Capital has had several recent cases of shootings, robberies and rapes that have garnered a lot of media attention, giving the public the sensation of a surge in crime. Interior Minister Anibal Fernandez recently stated that GOA statistics in fact show that crime is down, but this assertion is impossible to verify because the GOA has not published national crime statistics since 2004.

¶6. (C) On the economic front, sustained growth requires increasing infusions of foreign investment, dealing with the energy shortage and controlling inflation. Private Direct

Foreign Investment has increased significantly since the crisis, particularly in the tradable goods and services industries. Nevertheless, other sectors (e.g. public services) are badly in need of investment in order to sustain continued growth. A strategic flaw in the economic equation continues to be the energy sector. The Kirchner administration has faced serious pressure from utility companies and the G-7 to raise utility rates that have been pesified and then frozen for residential users since the peso devalued in 2002. So far, the GOA has been unwilling to raise utility rates for residential users, but Kirchner recently said he is open to discussions on the issue, although he made no promises. Without a utility rate

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increase, it is doubtful that Argentina will see major new foreign investments in public utilities in the short-term. Argentina's gas and electricity production has not kept up with the rapid growth of demand due to the absence of market incentives (price) to invest or expand production. (Comment: Kirchner's unorthodox methods of controlling inflation, frozen utility rates and hardball tactics with the private sector may earn Kirchner short-term benefits, but they are not long-term solutions to Argentina's economic problems because they scare away foreign investment that Argentina needs to sustain its economic growth. End Comment.)

KIRCHNER WEAK ON SUPPORT FOR INSTITUTIONAL DEMOCRACY

17. (C) Although Kirchner began his presidency by strengthening the independence of the Supreme Court, his record since then on institutional-democracy building has been poor. Upon assuming office, Kirchner moved quickly to clean up former President Carlos Menem's "automatic majority" Supreme Court that was widely regarded as corrupt. Kirchner and his supporters in Congress forced three Menem-era Supreme Court justices to resign and impeached two others. Kirchner then appointed four well-respected jurists to succeed them. However, since that time Kirchner has failed to fill the remaining vacancies on the high court -- a second vacancy opened up after another justice retired -- reducing the effectiveness of the court. (Note: Rulings still require the support of five justices, which is more difficult to achieve with only seven instead of nine on the bench. End Note.) A proposal by legal experts to reduce the number of Supreme Court justices from nine to five, as it was before Menem's 1990 controversial judicial reform, has not been pursued by the Kirchner administration.

18. (C) Over the past year, Kirchner has instigated a number of actions that have further debilitated Argentina's already weak democratic institutions. Kirchner has issued hundreds of presidential decrees during his presidency, preferring to avoid discussion or delay in Congress, and signed more decrees in his third year of his presidency than laws approved by Congress. A new law sponsored by his wife, Cristina Fernandez de Kirchner, nominally is designed to regulate the presidential-decree-making process. The bill, which will likely be signed into law shortly, would authorize presidential decrees that are not voted down by both houses of Congress. The proposed bill does not set a time limit on when Congress is required to vote after a presidential decree is issued and allows decrees to remain in force pending a congressional vote. (Note: Senator Cristina Kirchner proposed a bill in 2000 designed to regulate presidential decrees when Fernando de la Rua of the Radical Civic Union (UCR) was President. Unlike her current bill, the 2000 Cristina Kirchner bill required Congress to vote on presidential decrees within 20 days of their issuance and made the decrees invalid if just one house of Congress voted against them. Senator Kirchner's bill was not approved in 2000, but UCR Senator Rodolfo Terragno reintroduced Kirchner's exact bill in the Senate earlier this year, to which Senator Kirchner responded with the current modified

version of the bill. End Note.) (Comment: Congress' regulation of presidential decrees is a long-overdue action that was supposed to be addressed shortly following the 1994 constitutional reform. The current bill will serve to legitimate what has become an arbitrary use of presidential powers. Kirchner is not the first president to abuse the use of presidential decrees, but he has taken their use to new levels. End Comment.)

¶9. (C) Kirchner and his supporters' manipulation of the electoral system before and after the October 2005 legislative elections gained them more power in Congress, but sometimes ran counter to voters' wishes and the spirit of the Constitution and electoral law. In the October elections, the ruling PJ party split in five of the eight provinces that were electing national senators, allowing them to gain all three Senate seats in the five provinces. (Note: By dividing in several provinces, and in most cases reuniting after the

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election, the PJ circumvented a constitutional provision reserving a portion of the Senate seats to minority parties. Electoral law further stipulates that those parties that cannot agree on a unified electoral list hold primary elections to choose candidates, which the PJ did not do in most provinces. See Reftel A. End Note.) Kirchner's allies in Congress also prevented right-wing Paufe leader Luis Patti from taking his seat in Congress due to as yet unproven allegations of human rights abuses when Patti was a police commissioner during the last military dictatorship. Patti was prevented from taking his seat despite a ruling by the National Electoral Committee prior to the election that there was nothing preventing Patti from assuming office and despite the nearly 400,000 people that voted for him in Buenos Aires province (See Reftel B).

¶10. (C) Kirchner and his allies have used other questionable tactics that contradicted voters' intentions and have supporting provincial allies in overturning term limits. Cabinet Chief Alberto Fernandez drew newly-elected congressman for the opposition Republican Proposal (PRO) Eduardo Lorenzo Borocoto over to Kirchner's bloc by offering his son a lucrative government job. Several Kirchner congressmen elected in October never assumed their seats, such as Jorge Taiana, who became Foreign Minister, and La Rioja Governor Angel Maza, who left his newly-won Senate seat to his sister, Ada Maza. Tucuman Governor Jose Alperovich, with Kirchner's blessing, recently changed his province's constitution to allow himself to run for reelection. Kirchner is supporting similar efforts by friendly Governors in Jujuy and Misiones, and Buenos Aires Governor Felipe Sola is in discussions with Kirchner to allow him to change the Buenos Aires Constitution or ensure a favorable legal ruling so he also can run for reelection next year.

¶11. (C) Kirchner has achieved an unprecedented centralization of decision-making, but has weakened Argentina's system of checks and balances in the process. In February 2006, Kirchner and his allies in Congress succeeded in modifying the Council of Magistrates that regulates the Argentine judicial system, strengthening the Casa Rosada's control over the judiciary (See Reftel C). Congress is also likely to shortly approve granting Cabinet Chief Alberto Fernandez permanent "super" budgetary powers that will enable him to freely move funds from one area of the budget to another without approval from Congress. The opposition in Congress claim the proposed law will strip Congress of its fundamental democratic role of controlling the budget and that these powers are no longer necessary because the economic crisis is over. The opposition further argues that the measure is simply designed to allow the GOA to spend money however it wants during an election year, pointing out that Alberto Fernandez reassigned ARP 500 million to social and public works projects just two weeks before the October 2005 legislative elections using these same powers. The Kirchners have lashed out repeatedly at the press and the

opposition for their criticism of the Casa Rosada's recent actions in Congress. The GOA claims these are necessary powers to ensure the smooth functioning of the government. Regardless of the opposition's objections, the Casa Rosada appears to have the necessary votes to approve the measure by early August. (Note: These "super" budgetary powers were first granted by Congress to the GOA at the start of the economic crisis in 2001 and were re-approved every year through the 2005 budget. They were not included in the 2006 budget -- passed before the October elections gave Kirchner control of Congress -- because of opposition resistance. The current bill would make these special budgetary powers permanent. End Note.)

¶12. (S) Kirchner campaigned in 2003 on a strong anti-corruption message and his first Justice Minister, Gustavo Beliz, came with impeccable credentials and championed the cause of rooting out official corruption. Unfortunately, the GOA has placed less emphasis on fighting corruption since then. In fact, since Beliz was fired in 2004, Kirchner has avoided speaking publicly about official corruption and the much-vaunted new Office of Anti-Corruption has failed to live up to its envisioned potential. There

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also have been credible allegations that Planning Minister Julio De Vido, a key Kirchner insider, has been involved in questionable federal and provincial public works contracts during Kirchner's presidency (See Reftel D).

KIRCHNER FOREIGN POLICY SUFFERS FROM NEGLECT

¶13. (C) President Kirchner's lack of attention and understanding in the international relations arena has resulted in an erratic GOA foreign policy. President Kirchner is not skilled at international diplomacy and relies on an ever-shrinking group of long-time advisors who lack foreign policy expertise to make key decisions. Kirchner has touted Mercosur as a regional alternative to the FTAA, but his conflict with Uruguay over the construction of two paper plants has caused a crisis within the trading bloc. President Kirchner has recently sought closer relations with Spain, even as he is putting more pressure on Spanish companies with major investments in Argentina, such as Repsol and Aerolineas Argentinas. Kirchner has repeatedly thanked the U.S. for its support to Argentina during the crisis and sought to strengthen the bilateral relationship after short-circuits during the Summit of the Americas, but took the opportunity during a recent press conference in Madrid to criticize the U.S. and claim that the U.S. left Argentina to face the crisis alone (See Reftel E).

¶14. (C) The Kirchner administration's most important foreign policy theme is the promotion of regional integration, which in practice has meant the strengthening of relations with Venezuela and Brazil. Argentina's most important goal during its recent presidency of Mercosur was the integration of Venezuela into the trading bloc (See Reftel F). Kirchner's top officials have repeatedly told Embassy officials that the GOA's relationship with Venezuela is based on economics and Mercosur. Kirchner sees Venezuela as a solution for Argentina's energy and financing problems. Kirchner, who normally places a low priority on foreign relations, in the past 12 months has traveled twice to Caracas and hosted Chavez three times in Argentina. Kirchner will host Chavez again for the July 20-21 Mercosur Summit in Cordoba, Argentina. Kirchner has also sought to strengthen relations with Brazil, recently endorsing Brazilian President Lula's reelection and signing an accord on automobile sales between the two countries.

¶15. (C) To his credit, Kirchner has remained committed to OAS efforts to return Haiti to stability and constitutional democracy. Senior GOA officials assure us that Argentine

peacekeepers will remain on the island for the long-term.

COMMENT

¶16. (C) President Kirchner has numerous successes to show after three years in office. The economy is booming and Argentines feel a level of stability and dignity has been restored to their country which was lost in the political, economic and social disaster of 2001-2002. In Kirchner's first years in office, Argentina needed a strong hand to lead it out of the depths of crisis. History has shown that long-term, broad-based economic growth needs to be accompanied by a strong institutional framework. Now that the crisis has past, the country needs a leader that is willing to spend some of his built-up capital to strengthen Argentina's weak democratic institutions. To date, it is unclear whether Kirchner has the will or capacity to make this transition. End Comment

GUTIERREZ